

EARLHAM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

# Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	38
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	39
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		41-42
Schedule of Findings		43-45

Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education  
(Before September 2006 Election)

Mike Madren	President	2008
David Steward	Vice President	2007
David Morford	Board Member	2008
Lynn Boyle	Board Member	2006
Trish Hopkins	Board Member	2007

Board of Education  
(After September 2006 Election)

Mike Madren	President	2008
David Steward	Vice President	2007
Trish Hopkins	Board Member	2007
David Morford	Board Member	2008
Craig Hamilton	Board Member	2009

School Officials

H. Douglas Latham	Superintendent	2007
Jodi Stroud	District Secretary and Business Manager	2007
Ahlers & Cooney, P.C.	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Earlham Community School District, Earlham Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Earlham Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2008 on our consideration of the Earlham Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Earlham Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 5, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,328,828 in fiscal 2006 to \$4,761,848 in fiscal 2007, while General Fund expenditures increased from \$4,420,428 in fiscal 2006 to \$4,842,693 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$713,180 in fiscal 2006 to a balance of \$629,359 in fiscal 2007, an 11.8% decrease from the prior year. This is in line with the school board's position to gradually lower the unspent balance and move our solvency ratio to a lower, more acceptable level.
- The downward trend of the General Fund balance continues for FY 07. The challenge for the District is to stabilize or lower the General Fund spending so it can continue to cash-flow the operations of the District.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Earlham Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Earlham Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Earlham Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Earlham Community School District Annual Financial Report***

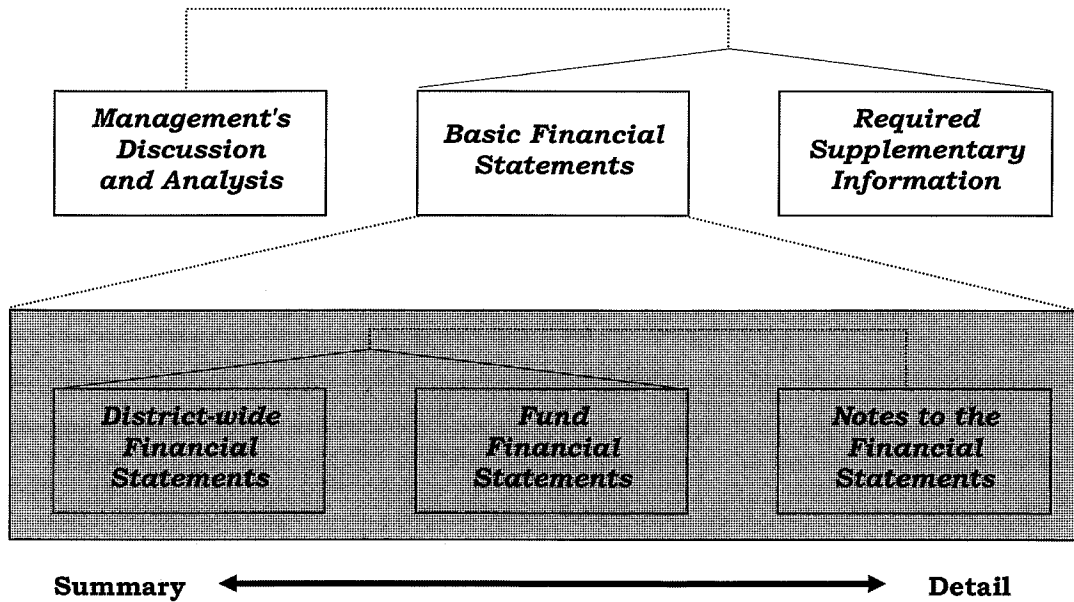


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,034,417	3,409,262	12,908	17,376	4,047,325	3,426,638	18.11%
Capital assets	6,309,960	6,616,988	122,684	126,856	6,432,644	6,743,844	-4.61%
Total assets	10,344,377	10,026,250	135,592	144,232	10,479,969	10,170,482	3.04%
Long-term obligations	3,183,895	3,395,000	0	0	3,183,895	3,395,000	-6.22%
Other liabilities	2,643,609	2,363,971	4,382	3,314	2,647,991	2,367,285	11.86%
Total liabilities	5,827,504	5,758,971	4,382	3,314	5,831,886	5,762,285	1.21%
Net assets:							
Invested in capital assets, net of related debt	3,126,065	3,257,343	122,684	126,856	3,248,749	3,384,199	-4.00%
Restricted	857,064	346,594	0	0	857,064	346,594	147.28%
Unrestricted	533,744	663,342	8,526	14,062	542,270	677,404	-19.95%
Total net assets	\$ 4,516,873	4,267,279	131,210	140,918	4,648,083	4,408,197	5.44%

The District's combined net assets increased by 5.44%, or \$239,886, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$510,470 or 147.28% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$135,134, or 19.95%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 542,930	562,678	230,821	214,084	773,751	776,762	-0.39%
Operating grants and contributions and restricted interest	691,821	513,277	76,965	64,516	768,786	577,793	33.06%
General revenues:							
Property tax	1,748,697	1,642,762	0	0	1,748,697	1,642,762	6.45%
Local option sales and service tax	329,427	404,653	0	0	329,427	404,653	-18.59%
Unrestricted state grants	2,420,292	2,225,529	0	0	2,420,292	2,225,529	8.75%
Unrestricted investment earnings	68,017	41,377	219	123	68,236	41,500	64.42%
Other	108,137	43,305	15,385	0	123,522	43,305	185.24%
Total revenues	5,909,321	5,433,581	323,390	278,723	6,232,711	5,712,304	9.11%
Program expenses:							
Governmental activities:							
Instructional	3,518,824	3,136,023	0	0	3,518,824	3,136,023	12.21%
Support services	1,493,834	1,411,210	0	0	1,493,834	1,411,210	5.85%
Non-instructional programs	0	0	333,098	277,740	333,098	277,740	19.93%
Other expenses	647,069	572,793	0	0	647,069	572,793	12.97%
Total expenses	5,659,727	5,120,026	333,098	277,740	5,992,825	5,397,766	11.02%
Change in net assets	249,594	313,555	(9,708)	983	239,886	314,538	-23.73%
Net assets beginning of year	4,267,279	3,953,724	140,918	139,935	4,408,197	4,093,659	7.68%
Net assets at end of year	\$ 4,516,873	4,267,279	131,210	140,918	4,648,083	4,408,197	5.44%

In fiscal 2007, property tax and unrestricted state grants account for 70.5% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 95.2% of the revenue from business type activities.

The District's total revenues were approximately \$6.23 million of which \$5.91 million was for governmental activities and less than \$0.32 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 9.11% increase in revenues and an 11.02% increase in expenses. Unrestricted state grants increased \$194,763 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$5,909,321 and expenses were \$5,659,727.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 3,518,824	3,136,023	12.21%	2,473,188	2,230,993	10.86%
Support services	1,493,834	1,411,210	5.85%	1,493,138	1,410,865	5.83%
Other expenses	647,069	572,793	12.97%	458,650	402,213	14.03%
Totals	<u>\$ 5,659,727</u>	<u>5,120,026</u>	<u>10.54%</u>	<u>4,424,976</u>	<u>4,044,071</u>	<u>9.42%</u>

- The cost financed by users of the District's programs was \$542,930.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$691,821.
- The net cost of governmental activities was financed with \$1,748,697 in property tax, \$329,427 in local option sales tax, \$2,420,292 in unrestricted state grants and \$68,017 in investment earnings.

### Business-Type Activities

Revenues of the District's business-type activities were \$323,390 and expenses were \$333,098. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Earlham Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,415,718, above last year's ending fund balances of \$1,071,667.

### Governmental Fund Highlights

- The continued decrease in the year ending fund balance requires a steady monitoring of cash flow. The addition of staff members along with increased transportation and utility costs have had a major impact on the General Fund.
- The General Fund has gone from a fund balance in FY 04 of \$1,171,852 to a fund balance for FY 07 of \$629,359 or a decrease of 46.29%. This is significant to note as Earlham has also seen consistent increases in enrollment which provides for new money among the highest percentages in the state. New money for FY 07 was \$166,165, and there was still an 11.8% decrease in the General Fund balance.
- The District has a signed agreement to purchase 30 acres of land for future building, so the SILO receipts are being earmarked for that purpose along with a 4-unit portable classroom that will be ready for use for the fall of 2007.

## Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$140,918 at June 30, 2006 to \$131,210 at June 30, 2007, representing a decrease of 6.9%.

The cash flow and the operating costs of the hot lunch fund are monitored closely to make sure the revenues from the hot lunch sales are adequate to cover increased labor, supply and transportation costs. The General Fund covers any shortfall of the hot lunch program. For FY 07, \$7,500 was transferred to cover hot lunch expenses.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$501,942 less than budgeted revenues, a variance of 7.5%. The decrease can be attributed to the District receiving less local and state monies than were originally anticipated.

Total expenditures were \$1,526,218 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$6,432,644, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$391,212.

The original cost of the District's capital assets was \$9,617,392. Governmental funds account for \$9,434,778 with the remainder of \$182,614 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$6,380,067 at June 30, 2006, compared to \$6,112,819 reported at June 30, 2007. This decrease resulted from depreciation expense for the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 10,000	10,000	0	0	10,000	10,000	0.00%
Buildings	6,112,819	6,380,067	0	0	6,112,819	6,380,067	-4.19%
Improvements other than buildings	34,674	33,075	0	0	34,674	33,075	4.83%
Machinery and equipment	152,467	193,846	122,684	126,856	275,151	320,702	-14.20%
Total	\$ 6,309,960	6,616,988	122,684	126,856	6,432,644	6,743,844	-4.61%

### Long-Term Debt

At June 30, 2007, the District had \$3,183,895 in general obligation, and other long-term debt outstanding. This represents a decrease of 5.3% from last year. (See figure A-7)

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Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,705,000	2,840,000	-4.8%
Capital loan note	470,000	555,000	-15.3%
Telephone lease	8,895	0	100.0%
Totals	\$ 3,183,895	3,395,000	-5.3%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Earlham Community School District is one of a few schools in the state that has seen consistent enrollment increases over the last several years and this continues to be the trend.
- The District is going to purchase 30 acres of land in October 2007. A planning committee is working on determining what type of facility would best fit the needs of the District to be built on that site. The SILO funds will be used for the land purchase.
- To help with the space limitations of the current building, Earlham has ordered a 4-unit portable classroom to be installed over the summer of 2007. With the portable and the land purchase, the SILO funds will be significantly depleted.
- Several other projects have been mentioned as improvements for the district such as renovation to the science classrooms and courtyard renovation into an outdoor classroom.
- The challenge for the district is to prioritize the needs and look closely at the funding resources available from all funds.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Stroud, Business Manager, Earlham Community School District, P.O. Box 430, Earlham, Iowa, 50072.

## BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 224,645	0	224,645
Other	1,694,570	5,942	1,700,512
Receivables			
Property tax:			
Delinquent	17,726	0	17,726
Succeeding year	1,913,328	0	1,913,328
Accrued ISCAP interest (Note 5)	1,108	0	1,108
Due from other governments	183,040	0	183,040
Inventories	0	6,966	6,966
Capital assets, net of accumulated depreciation (Note 6)	6,309,960	122,684	6,432,644
<b>Total Assets</b>	<b>10,344,377</b>	<b>135,592</b>	<b>10,479,969</b>
<b>Liabilities</b>			
Accounts payable	74,260	172	74,432
Salaries and benefits payable	403,496	0	403,496
ISCAP warrants payable (Note 5)	225,000	0	225,000
ISCAP accrued interest payable (Note 5)	945	0	945
ISCAP unamortized premium	1,670	0	1,670
Accrued interest payable	24,910	0	24,910
Deferred revenue:			
Succeeding year property tax	1,913,328	0	1,913,328
Unearned revenue	0	4,210	4,210
Long-term liabilities: (Note 7)			
Portion due within one year:			
General obligation bonds payable	140,000	0	140,000
Capital loan note	85,000	0	85,000
Portion due after one year:			
General obligation bonds payable	2,565,000	0	2,565,000
Capital loan note	385,000	0	385,000
Telephone lease	8,895	0	8,895
<b>Total Liabilities</b>	<b>5,827,504</b>	<b>4,382</b>	<b>5,831,886</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,126,065	122,684	3,248,749
Restricted for:			
Talented and Gifted	48,496	0	48,496
Beginning teacher mentoring	1,494	0	1,494
Additional teacher contract day	660	0	660
Professional development	15,292	0	15,292
Market factor	4,663	0	4,663
Capital projects	592,987	0	592,987
Management levy	78,997	0	78,997
Physical plant and equipment levy	74,672	0	74,672
Debt service levy	7,290	0	7,290
Other special revenue purposes	32,513	0	32,513
Unrestricted	533,744	8,526	542,270
<b>Total Net Assets</b>	<b>\$ 4,516,873</b>	<b>131,210</b>	<b>4,648,083</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Services Interest		Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,296,361	295,616	473,160	(1,527,585)	0	(1,527,585)
Special instruction	540,525	37,609	29,546	(473,370)	0	(473,370)
Other instruction	681,938	209,705	0	(472,233)	0	(472,233)
	<u>3,518,824</u>	<u>542,930</u>	<u>502,706</u>	<u>(2,473,188)</u>	<u>0</u>	<u>(2,473,188)</u>
Support services:						
Student services	82,723	0	0	(82,723)	0	(82,723)
Instructional staff services	114,410	0	0	(114,410)	0	(114,410)
Administration services	568,018	0	0	(568,018)	0	(568,018)
Operation and maintenance of plant services	531,704	0	0	(531,704)	0	(531,704)
Transportation services	196,979	0	696	(196,283)	0	(196,283)
	<u>1,493,834</u>	<u>0</u>	<u>696</u>	<u>(1,493,138)</u>	<u>0</u>	<u>(1,493,138)</u>
Other expenditures:						
Long-term debt interest	165,793	0	0	(165,793)	0	(165,793)
AEA flowthrough	188,419	0	188,419	0	0	0
Depreciation(unallocated)*	292,857	0	0	(292,857)	0	(292,857)
	<u>647,069</u>	<u>0</u>	<u>188,419</u>	<u>(458,650)</u>	<u>0</u>	<u>(458,650)</u>
 Total governmental activities	 5,659,727	 542,930	 691,821	 (4,424,976)	 0	 (4,424,976)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	333,098	230,821	76,965	0	(25,312)	(25,312)
Total business-type activities	<u>333,098</u>	<u>230,821</u>	<u>76,965</u>	<u>0</u>	<u>(25,312)</u>	<u>(25,312)</u>
Total	<u>\$ 5,992,825</u>	<u>773,751</u>	<u>768,786</u>	<u>(4,424,976)</u>	<u>(25,312)</u>	<u>(4,450,288)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,332,973	0	1,332,973
Debt service				269,095	0	269,095
Capital outlay				146,629	0	146,629
Local option sales and services				329,427	0	329,427
Unrestricted state grants				2,420,292	0	2,420,292
Unrestricted investment earnings				68,017	219	68,236
Other				123,522	0	123,522
Transfers				(15,385)	15,385	0
Total general revenues and transfers				<u>4,674,570</u>	<u>15,604</u>	<u>4,690,174</u>
Changes in net assets				249,594	(9,708)	239,886
Net assets beginning of year				<u>4,267,279</u>	<u>140,918</u>	<u>4,408,197</u>
Net assets end of year				<u>\$ 4,516,873</u>	<u>131,210</u>	<u>4,648,083</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 224,645	0	0	224,645
Other	942,154	557,994	194,422	1,694,570
Receivables:				
Property tax:				
Delinquent	12,599	0	5,127	17,726
Succeeding year	1,385,350	0	527,978	1,913,328
Interfund	106,706	0	0	106,706
Accrued ISCAP interest(Note 5)	1,108	0	0	1,108
Due from other governments	41,218	141,822	0	183,040
<b>Total Assets</b>	<b>\$ 2,713,780</b>	<b>699,816</b>	<b>727,527</b>	<b>4,141,123</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interfund payable	\$ 0	106,706	0	106,706
Accounts payable	67,960	123	6,177	74,260
Salaries and benefits payable	403,496	0	0	403,496
ISCAP warrants payable(Note 5)	225,000	0	0	225,000
ISCAP accrued interest payable(Note 5)	945	0	0	945
ISCAP unamortized premium	1,670	0	0	1,670
Deferred revenue:				
Succeeding year property tax	1,385,350	0	527,978	1,913,328
Total liabilities	2,084,421	106,829	534,155	2,725,405
Fund balances:				
Reserved for:				
Talented and Gifted	48,496	0	0	48,496
Beginning teacher mentoring	1,494	0	0	1,494
Additional teacher contract day	660	0	0	660
Professional development	15,292	0	0	15,292
Market factor	4,663	0	0	4,663
Debt service	0	0	7,290	7,290
Unreserved	558,754	592,987	186,082	1,337,823
Total fund balances	629,359	592,987	193,372	1,415,718
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,713,780</b>	<b>699,816</b>	<b>727,527</b>	<b>4,141,123</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ 1,415,718

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in in the governmental funds. 6,309,960

Accrued interest payable on long-term liabilities is not  
due and payable in the current period and, therefore, is  
not reported as a liability in the governmental funds. (24,910)

Long-term liabilities, including bonds and notes payable,  
are not due and payable in the current period and, therefore,  
are not reported in the funds. (3,183,895)

Net assets of governmental activites (page 13) \$ 4,516,873

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,242,860	329,427	505,837	2,078,124
Tuition	333,225	0	0	333,225
Other	163,025	17,441	220,778	401,244
State sources	2,894,407	89,375	0	2,983,782
Federal sources	128,331	0	0	128,331
Total revenues	4,761,848	436,243	726,615	5,924,706
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	2,289,655	0	0	2,289,655
Special instruction	540,525	0	0	540,525
Other instruction	455,063	0	226,875	681,938
	3,285,243	0	226,875	3,512,118
Support services:				
Student services	82,723	0	0	82,723
Instructional staff services	114,410	0	0	114,410
Administration services	563,544	0	800	564,344
Operation and maintenance of plant services	448,033	0	109,495	557,528
Transportation services	160,321	0	0	160,321
	1,369,031	0	110,295	1,479,326
Other expenditures:				
Facilities acquisitions	0	19,452	0	19,452
Long-term debt:				
Principal	0	0	220,000	220,000
Interest and fiscal charges	0	9,000	158,259	167,259
AEA flowthrough	188,419	0	0	188,419
	188,419	28,452	378,259	595,130
Total expenditures	4,842,693	28,452	715,429	5,586,574
Excess(deficiency) of revenues over(under)expenditures	(80,845)	407,791	11,186	338,132
<b>Other financing sources (uses):</b>				
Sale of equipment	4,524	0	0	4,524
Proceeds from lease purchases	0	0	8,895	8,895
Transfers in	0	0	109,705	109,705
Transfers out	(7,500)	0	(109,705)	(117,205)
Total other financing sources (uses)	(2,976)	0	8,895	5,919
Net change in fund balances	(83,821)	407,791	20,081	344,051
Fund balance beginning of year	713,180	185,196	173,291	1,071,667
Fund balance end of year	\$ 629,359	592,987	193,372	1,415,718

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 344,051

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 75,980	
Depreciation expense	(377,258)	
Loss on disposal of capital assets	<u>(5,750)</u>	(307,028)

Proceed from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current years issues and repayments are as follows:

Issued	(8,895)	
Repaid	<u>220,000</u>	211,105

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,466

Changes in net assets of governmental activities (page 14)

\$ 249,594

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 5,942
Inventories	6,966
Capital assets, net of accumulated depreciation(Note 6)	<u>122,684</u>
<b>Total Assets</b>	<u>135,592</u>
<b>Liabilities</b>	
Accounts payable	172
Unearned revenue	<u>4,210</u>
<b>Total Liabilities</b>	<u>4,382</u>
<b>Net Assets</b>	
Invested in capital assets	122,684
Unrestricted	<u>8,526</u>
<b>Total Net Assets</b>	<u>\$ 131,210</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 230,821
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	105,076
Benefits	28,605
Services	682
Supplies	184,781
Depreciation	13,954
Total operating expenses	<u>333,098</u>
Operating loss	<u>(102,277)</u>
Non-operating revenues:	
State sources	3,407
Federal sources	73,558
Interest on investments	219
Total non-operating revenues	<u>77,184</u>
Change in net assets before other financing sources	(25,093)
Other financing sources:	
Capital contribution	7,885
Transfer in	7,500
Total other financing sources	<u>15,385</u>
Change in net assets	(9,708)
Net assets beginning of year	<u>140,918</u>
Net assets end of year	<u>\$ 131,210</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 231,724
Cash received from miscellaneous operating activities	6
Cash payments to employees for services	(133,522)
Cash payments to suppliers for goods or services	(172,145)
Net cash used in operating activities	<u>(73,937)</u>
Cash flows from non-capital financing activities:	
Transfer from the General Fund	7,500
State grants received	3,407
Federal grants received	56,823
Net cash provided by non-capital financing activities	<u>67,730</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(1,897)</u>
Cash flows from investing activities:	
Interest on investments	<u>219</u>
Net decrease in cash and cash equivalents	(7,885)
Cash and cash equivalents at beginning of year	<u>13,827</u>
Cash and cash equivalents at end of year	<u>\$ 5,942</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (102,277)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,735
Depreciation	13,954
Increase in inventories	(3,417)
Increase in salaries and benefits payable	159
Increase in unearned revenue	909
Net cash used in operating activities	<u>\$ (73,937)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 5,942</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$16,735.

During the year ended June 30, 2007, the Nutrition Fund received contributed capital of \$7,885 from the General Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
<b>Assets</b>		
Cash and pooled investments	\$	100
		<u><u>100</u></u>
<b>Net Assets</b>		
Unrestricted	\$	100
		<u><u>100</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Donations	\$ 100
Deductions	0
Change in net assets	100
Net assets beginning of year	0
Net assets end of year	\$ 100

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Earlham Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Earlham, Iowa, and the predominate agricultural territory in Dallas and Madison Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Earlham Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Earlham Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dallas and Madison Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 978,707</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.



Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
General	Local Option Sales and Services Tax	<u>\$ 106,706</u>

**(4) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
	Special Revenue:	
	Physical Plant and Equipment Levy	\$ 109,705
Debt Service		
Nutrition	General	<u>7,500</u>
Total		<u>\$ 117,205</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/28/07	6/27/08	\$ 224,645	1,108	225,000	945

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be

made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. At June 30, 2007, no ISCAP advance activity was noted.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

#### (6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	0	0	10,000
Total capital assets not being depreciated	10,000	0	0	10,000
Capital assets being depreciated:				
Buildings	8,392,674	0	0	8,392,674
Improvements other than buildings	134,161	32,958	15,682	151,437
Machinery and equipment	837,645	43,022	0	880,667
Total capital assets being depreciated	9,364,480	75,980	15,682	9,424,778
Less accumulated depreciation for:				
Buildings	2,012,607	267,248	0	2,279,855
Improvements other than buildings	101,086	25,609	9,932	116,763
Machinery and equipment	643,799	84,401	0	728,200
Total accumulated depreciation	2,757,492	377,258	9,932	3,124,818
Total capital assets being depreciated, net	6,606,988	(301,278)	5,750	6,299,960
Governmental activities capital assets, net	\$ 6,616,988	(301,278)	5,750	6,309,960
Business-type activities:				
Machinery and equipment	\$ 172,832	9,782	0	182,614
Less accumulated depreciation	45,976	13,954	0	59,930
Business-type activities capital assets, net	\$ 126,856	(4,172)	0	122,684

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 18,986

Support services:

Administrative 9,342

Operation and maintenance of plant 19,415

Transportation 36,658

84,401

Unallocated depreciation 292,857

Total governmental activities depreciation expense \$ 377,258

Business-type activities:

Food services \$ 13,954

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 2,840,000	0	135,000	2,705,000	140,000
Capital Loan Note	555,000	0	85,000	470,000	85,000
Telephone lease	0	8,895	0	8,895	0
Total	\$ 3,395,000	8,895	220,000	3,183,895	225,000

Capital Loan Notes

Details of the District's June 30, 2007 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Interest Rates	Issue dated February 1, 2002		
		Principal	Interest	Total
2008	4.20 %	\$ 85,000	21,105	106,105
2009	4.40	90,000	17,535	107,535
2010	4.50	95,000	13,375	108,375
2011	4.60	100,000	9,300	109,300
2012	4.70	100,000	4,700	104,700
Total		\$ 470,000	66,015	536,015

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bonded indebtedness is as follows:

Year	Issue dated February 1, 2002				
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2008	4.00 % \$	140,000	128,354	268,354	
2009	4.50	150,000	122,754	272,754	
2010	4.50	155,000	116,004	271,004	
2011	4.50	160,000	109,029	269,029	
2012	4.50	165,000	101,829	266,829	
2013	4.50	175,000	94,404	269,404	
2014	4.60	185,000	86,529	271,529	
2015	4.63	195,000	78,019	273,019	
2016	5.00	200,000	69,000	269,000	
2017	5.00	215,000	59,000	274,000	
2018	5.00	225,000	48,250	273,250	
2019	5.00	235,000	37,000	272,000	
2020	5.00	245,000	25,250	270,250	
2021	5.00	260,000	13,000	273,000	
Total		\$ 2,705,000	1,088,422	3,793,422	

#### Telephone Lease

During the year ended June 30, 2007, the District obtained financing for a new telephone system. Payments are made the Physical Plant and Equipment Levy Fund.

Year	Telephone Lease				
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2008	3.94 % \$	0	0	0	
2009	3.94	8,895	667	9,562	
Total		\$ 8,895	667	9,562	

#### Early Retirement

The District offers a voluntary early retirement plan to its employees. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 20% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay plus 50% of unused sick leave. There were no early retirement benefits paid by the District for year ended June 30, 2007.

#### **(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report

may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$173,168, \$140,503, \$145,821, respectively, equal to the required contributions for each year.

**(9) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$188,419 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,812,593	231,040	3,043,633	3,105,195	3,105,195	(61,562)
State sources	2,983,782	3,407	2,987,189	3,430,458	3,430,458	(443,269)
Federal sources	128,331	73,558	201,889	199,000	199,000	2,889
Total revenues	5,924,706	308,005	6,232,711	6,734,653	6,734,653	(501,942)
Expenditures:						
Instruction	3,512,118	0	3,512,118	3,778,345	3,778,345	266,227
Support services	1,479,326	0	1,479,326	2,400,198	2,400,198	920,872
Non-instructional programs	0	333,098	333,098	416,135	416,135	83,037
Other expenditures	595,130	0	595,130	851,212	851,212	256,082
Total expenditures	5,586,574	333,098	5,919,672	7,445,890	7,445,890	1,526,218
Excess(deficiency) of revenues over(under) expenditures	338,132	(25,093)	313,039	(711,237)	(711,237)	1,024,276
Other financing sources(uses), net	5,919	15,385	21,304	2,000	2,000	19,304
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing sources(uses)	344,051	(9,708)	334,343	(709,237)	(709,237)	1,043,580
Balance beginning of year	1,071,667	140,918	1,212,585	245,944	245,944	966,641
Balance end of year	\$ 1,415,718	131,210	1,546,928	(463,293)	(463,293)	2,010,221

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.



## OTHER SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
<b>Assets</b>						
Cash and pooled investments	\$ 78,084	38,590	73,186	189,860	4,562	194,422
Receivables:						
Property tax:						
Current year delinquent	913	0	1,486	2,399	2,728	5,127
Succeeding year	100,000	0	159,624	259,624	268,354	527,978
<b>Total Assets</b>	<b>\$ 178,997</b>	<b>38,590</b>	<b>234,296</b>	<b>451,883</b>	<b>275,644</b>	<b>727,527</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 0	6,177	0	6,177	0	6,177
Deferred revenue:						
Succeeding year property tax	100,000	0	159,624	259,624	268,354	527,978
Total Liabilities	100,000	6,177	159,624	265,801	268,354	534,155
Fund balances:						
Reserved for debt service	0	0	0	0	7,290	7,290
Unreserved fund balances	78,997	32,413	74,672	186,082	0	186,082
Total fund balances	78,997	32,413	74,672	186,082	7,290	193,372
<b>Total Liabilities and Fund Balances</b>	<b>\$ 178,997</b>	<b>38,590</b>	<b>234,296</b>	<b>451,883</b>	<b>275,644</b>	<b>727,527</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 90,113	0	146,629	236,742	269,095	505,837
Other	7,826	206,657	4,228	218,711	2,067	220,778
TOTAL REVENUES	97,939	206,657	150,857	455,453	271,162	726,615
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	226,875	0	226,875	0	226,875
Support services:						
Administration services	0	0	0	0	800	800
Operation and maintenance of plant services	77,871	0	31,624	109,495	0	109,495
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	220,000	220,000
Interest and fiscal charges	0	0	0	0	158,259	158,259
TOTAL EXPENDITURES	77,871	226,875	31,624	336,370	379,059	715,429
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,068	(20,218)	119,233	119,083	(107,897)	11,186
OTHER FINANCING SOURCES (USES):						
Proceeds for lease purchases	0	0	8,895	8,895	0	8,895
Transfers in	0	0	0	0	109,705	109,705
Transfers out	0	0	(109,705)	(109,705)	0	(109,705)
Total other financing sources (uses)	0	0	(100,810)	(100,810)	109,705	8,895
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	20,068	(20,218)	18,423	18,273	1,808	20,081
FUND BALANCE BEGINNING OF YEAR	58,929	52,631	56,249	167,809	5,482	173,291
FUND BALANCE END OF YEAR	\$ 78,997	32,413	74,672	186,082	7,290	193,372

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 928	102,672	97,445	6,155
Drill Team	473	1,949	1,821	601
FFA	11,414	23,647	29,538	5,523
FCCLA	2,407	1,670	2,540	1,537
National Honor Society	874	597	602	869
General Student Activity	969	19,115	18,897	1,187
Middle School Musical	526	0	0	526
Drama	3,082	794	1,575	2,301
Speech	34	0	34	0
Annual	2,451	4,560	5,448	1,563
Cheerleaders	2,790	10,922	12,630	1,082
Jack Oatts Festival	3,026	10,685	13,711	0
Art Club	418	867	672	613
Spanish Club	106	50	0	156
Science Club	102	0	0	102
High School Student Council	938	6,004	4,929	2,013
Middle School Student Council	2,587	3,796	5,581	802
Class of 2006	763	0	763	0
Class of 2007	5,992	5,393	10,396	989
Class of 2008	1,144	8,417	6,915	2,646
Class of 2009	927	271	147	1,051
Class of 2010	0	5,248	2,551	2,697
Elementary Fundraiser	10,680	0	10,680	0
Total	\$ 52,631	206,657	226,875	32,413

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
<b>Revenues:</b>					
Local sources:					
Local tax	\$	2,078,124	2,047,415	1,818,495	1,621,106
Tuition		333,225	384,846	336,582	329,086
Other		401,244	259,814	293,339	338,103
State sources		2,983,782	2,626,931	2,258,234	2,158,150
Federal sources		128,331	111,875	132,318	92,648
Total	\$	5,924,706	5,430,881	4,838,968	4,539,093
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular instruction	\$	2,289,655	2,136,718	1,866,121	1,716,357
Special instruction		540,525	425,315	534,336	473,000
Other instruction		681,938	569,161	481,314	447,460
Support services:					
Student services		82,723	78,266	71,110	68,760
Instructional staff services		114,410	117,377	113,857	87,247
Administration services		564,344	550,297	516,682	464,359
Operation and maintenance of plant services		557,528	510,278	645,614	684,453
Transportation services		160,321	141,083	152,665	112,968
Central services		0	0	0	52,942
Other expenditures:					
Facilities acquisitions		19,452	38,921	353,456	2,246,520
Long-term debt:					
Principal		220,000	210,000	200,000	190,000
Interest and other charges		167,259	177,934	177,359	186,309
AEA flow-through		188,419	170,580	149,175	146,376
Total	\$	5,586,574	5,125,930	5,261,689	6,876,751

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Earlham Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 5, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Earlham Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Earlham Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earlham Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Earlham Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Earlham Community School District's financial statements that is more than inconsequential will not be prevented or detected by Earlham Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Earlham Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earlham Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Earlham Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Earlham Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Earlham Community School District and other parties to whom Earlham Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Earlham Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 5, 2008

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing and bank deposits are done by one person and the posting of the cash receipts journal is done by a different person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-07 Activity Fund Invoices - We noted during our audit that a few bills were paid from emails instead of invoices.

Recommendation - The District should review its procedures to ensure they are paying bills from only invoices.

Response - The emails were for substitute officials. We will make sure they sign a contract when they sub for an event.

Conclusion - Response accepted.

I-C-07 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets for every event.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - Out facility does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

Conclusion - Response accepted.



EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Marden, Board President	Official	\$600

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Marden does not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - Starting with August 2007 bank statement, the District has gotten copies of the front and back of each cancelled check.

Conclusion - Response accepted.